MARKET MATTERS
INVEST

MONTHLY REPORT | MAY 2023 | ACTIVE HIGH CONVICTION

PORTFOLIO DETAILS

Portfolio Name	Active High Conviction
Structure	Separately Managed Account
Benchmark	S&P/ASX 200 Accumulation
Management Fee	0.85% incl GST
Platform	Open Wealth | Praemium
Included Assets	Equities, ETFs
Portfolio Manager	James Gerrish
Annual Performance	8.17%*

OBJECTIVE

The objective of the Market Matters Active High Conviction Portfolio is to provide an active exposure to Australian large-cap shares, with reduced volatility. Returns will be achieved through a combination of capital appreciation and income with an overall objective of outperformance of the S&P/ASX 200 Accumulation Index over the medium term, (3 years).

**Inception Date 10.05.2016*

MARKETS & PERFORMANCE

The Market Matters Active High Conviction Portfolio fell -1.72% in May, outperforming the S&P/ASX 200 Accumulation Index which fell by -2.53%. The portfolio has returned 14.31% for the rolling 12 months (against the benchmark return of 2.9%) and 15.06% per annum for 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	-1.72	2.96	5.74	14.31	8.68	15.06
BENCHMARK %	-2.53	-0.89	-0.58	2.90	3.87	11.44
RELATIVE %	0.81	3.85	6.32	11.41	4.81	3.62

Benchmark: S&P/ASX 200 Accumulation

Australian equities fell through May, as the RBA's hawkish tone resumed, while US lawmakers lingered around the country's debt ceiling. That saw the local market, as measured by the ASX 200 Accumulation Index fall (-2.53%) underperforming other developed markets.

The MSCI Developed Markets Index fell over the month (-0.1%), while the S&P 500 gained (+0.4%) in local currency terms. Bond yields priced in the RBA's more hawkish tone with Australian 10-year bond yields up 26bps to 3.60%, while US 10 years also rose 22bps to 3.64%.

Amongst commodity markets, Brent Oil fell by US$6.00 to US$73.54/bbl, as concerns continued around Chinese oil demand after weaker-than-expected Chinese manufacturing data. Iron Ore prices were soft, down by US$5.00 to US$100.00/Mt while Gold prices fell by US$30.10 to US$1,952 on a stronger USD.

There was significant sector divergence locally, with the IT sector the clear standout up (+11.6%), while Utilities (+1.10%), Energy (+0.2%) and Healthcare (+0.1%) made gains in a soft market.

The Consumer Discretionary sector was the hardest hit during May ending down (-6.1%) while Staples (-4.6%), Materials (-4.4%), Financials (-3.2%), Property (-1.8%), Consumer Services (-1.2%) and Industrials (-0.80%) also fell.

PORTFOLIO STOCKS

The portfolio held 20 positions at the end of May, with our main portfolio tilt moving from overweight in technology to a more defensive stance (higher cash) while we began to increase the portfolio weightings towards resources.

We bought **Worley Limited (WOR)** in May ahead of their investor day, selling Woodside Energy (WDS) to fund the acquisition.

Worley is an $8bn global engineering, advisory, and project management services company with a key sector focus in the energy, chemicals, and resources sectors. There is plenty of work for this consulting and advisory business, particularly given the huge energy transition that is underway - WOR will be a key player in global decarbonisation. This will grow top-line revenue, however, this is well known and understood by the market, and therefore in the price of the shares.

However, WOR and most other contractors have traditionally struggled with margins, but there are signs from other global competitors that margins are expanding, and this is the area the market is not appreciating in our view. Margin expansion is the key for Worley.

Newcrest Mining (NCM) have finally agreed to be bought by Gold giant Newmont **(NMT US)** creating the world's biggest Gold producer with mines across the Americas, Africa, Australia and Papua New Guinea. The deal has been recommended by the NCM Board and consists of 0.40 NMT shares for every 1 NCM share plus a $US1.10 fully franked dividend. Given this is a script bid the pricing is fluid, however, NCM remains ~$1 below the implied value ascribed through the deal, and for that reason, we are continuing to hold Newcrest shares.

A position we trimmed during the month was **Xero (XRO)**. The accounting platform provided a good update in May, reporting solid progress as they work towards balancing growth and profitability. 2H23 Revenue of NZ$741m was in line with expectations while they ended the period with 3,741,000 subscribers, slightly better than expected.

The momentum in subscriptions was also solid, particularly in ANZ where net adds were still at an all-time high. Average Revenue Per User (ARPU) was better than hoped and despite the challenges playing out in the UK, performance was in line with expectations. The only real blip was the US business where their 32k net ads were light on.

This all drove adjusted EBITDA of $193m, ~10% ahead of the $174m consensus, while they reiterated the March guidance of FY24 operating expenditure to revenue ratio of ~75%.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	4.4
TOP 5 POSITIONS (% OF AUM)	27.08
TOP 10 POSITIONS (% OF AUM)	48.62

STOCK	CONTRIBUTION (%)
XERO (XRO)	1.34
JAMES HARDIE (JHX)	0.87
PILBARA MINERALS (PLS)	0.17
ILUKA (ILU)	0.15
WORLEY (WOR)	0.12

STOCK	DETRACTION (%)
WHITEHAVEN COAL (WHC)	-1.13
TREASURY WINES (TWE)	-0.89
RAMSAY HEALTHCARE (RHC)	-0.70
NATIONAL BANK (NAB)	-0.45
NEWCREST MINING (NCM)	-0.42

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	8.16	2.80	-5.71	3.68	7.75	-3.20	8.18	-1.93	2.08	2.63	-1.72		**22.72**
FY22	0.25	2.53	0.78	1.75	-3.49	2.72	-4.00	2.06	5.51	-2.30	-4.69	-7.70	**-6.58**
FY21	0.27	4.94	-4.10	-1.07	14.87	1.34	-0.50	3.08	0.66	4.10	1.17	2.70	**27.46**
FY20	1.21	-2.16	3.75	-1.55	0.80	0.34	2.06	-10.25	-24.12	12.66	5.30	2.02	**-9.94**
FY19	1.11	1.64	-0.77	-2.16	-1.22	-1.94	3.39	4.98	-1.00	2.39	1.72	4.41	**12.55**
CUMULATIVE													**46.21**

PORTFOLIO STOCKS CONTINUED

Lower R&D spending also drove a big beat in terms of free cash flow. All in all, a solid update from a business that is going through some adjustments to ramp up earnings. We used prevailing strength to reduce our large position, at the time, it was the portfolio's largest holding.

We bought **James Hardie (JHX)** back in October believing the stock had been significantly oversold creating deep value and a solid risk/reward opportunity in the process. At the time our initial target was the $38 region which was reached following their solid Annual Report delivered during the month - the 10% advance by JHX sent the stock to fresh 1-year highs. However, FY24 will be tough from a volume perspective making further headway in the share price potentially far harder than the +48% recovery from its December low. We trimmed our weighting in May.

Less favourable has been private hospital operator **Ramsay Healthcare (RHC)**, delivering us an uncomfortable ride after the recovery in earnings fell short of expectations. We believed earnings growth would accelerate as the world moves on from COVID and pent-up demand for surgeries could be fulfilled driving a strong rebound in profits. While revenue was up 10.9% for the first 9 months of the year, this was below where MM and the broader market expected it to be with consensus forecasting FY23 revenue growth of 13.6%, by definition, leaving them a lot to do in Q4 to meet targets. While the commentary is positive and the trends are heading in the right direction, the re-adjustment from the market is unfortunately warranted. The decline in RHC detracted 0.70% from portfolio performance in May.

Another holding to disappoint was **Treasury Wines (TWE)**. The premium-focused global wine company that was demerged from Foster's Group more than a decade ago disappointed the market when it announced FY23 guidance that lagged forecast due to weakness in the Americas & Premium Brands (TPB) partially offset by growth in Penfolds. They recut FY23 guidance and now expect earnings (EBITS) of $580m-$590m, which represents growth of 11% to 13% on FY22 but this was around 3% below consensus. For now, we are backing management believing they can execute their plans as they did when China originally closed its doors to Australian wine. The company is currently continuing to re-jig their business to focus on the premium segments that achieve better margins plus they are looking to reduce costs. The decline in TWE detracted 0.88% from portfolio performance in May.

WEBINAR

In association with Ausbiz, **Market Matters hosted a Webinar in May** focussing on portfolio positioning. Lead Portfolio Manager James Gerrish was joined by Nadine Blayney (Host) Head of Content, ausbiz, Ben Clark, Portfolio Manager at TMS Capital, Nick Guidera, Portfolio Manager at Elley Griffiths and Marcus Padley from Marcus Today.

The Webinar covered:

- Where are we in the market cycle; should we be cautious or not?
- Favourite sectors given prevailing macro conditions.
- Highest conviction stocks: two picks from each panellist debated with their peers, just to keep it interesting!)

A recording of the 1-hour webinar can be accessed **here**.

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